

Message Text

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ORIGIN NEA-10

INFO OCT-01 EUR-12 ISO-00 PM-04 L-03 DODE-00 CIAE-00

INR-07 NSAE-00 INRE-00 SSO-00 NSCE-00 NSC-05 SP-02

SS-15 MC-02 OMB-01 H-02 TRSE-00 IGA-02 /066 R

DRAFTED BY NEA/ARP:PDMOLINEAUX:LB

APPROVED BY NEA/ARP:FMDICKMAN

PM/SAS:DKEENE

L/PM:JMICHEL

DOD/ISA:VMORELLI

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FM SECSTATE WASHDC

TO AMEMBASSY JIDDA IMMEDIATE

INFO AMEMBASSY SANA IMMEDIATE

AMEMBASSY LONDON IMMEDIATE

S E C R E T STATE 090245

E.O. 11652: GDS

TAGS: PFOR, MASS, MARR, SA, YE

SUBJECT: SAUDI RESPONSE TO US AIDE-MEMOIRE ON CANCEL-
LATION OF LOAS FOR YARG

REFERENCE: JIDDA 2620

1. DEPARTMENT WELCOMES INTENTION OF EMBASSY SEEK FURTHER
CLARIFICATION OF PRINCE SULTAN'S REPLY TO US LETTER ON
POSSIBLE CANCELLATIONS OF LOAS AFTER SIGNING.

2. HOWEVER, ON PRELIMINARY BASIS, AND AS BASIS FOR
DISCUSSION WITH SULTAN, SHOULD OCCASION ARISE, EMBASSY
SHOULD BE AWARE OF DEPARTMENT'S VIEWS AS FOLLOWS:

A.) USG WOULD HAVE NO PROBLEM WITH SECOND AND THIRD
POINTS OF SULTAN'S LETTER.

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B.) FIRST POINT OF SULTAN'S LETTER, I.E., RESTRICTION

OF RIGHT OF CANCELLATION TO SAUDI ARABIA ALONE, HOWEVER, IS UNACCEPTABLE TO USG. USG, FOR ITS PART, CANNOT SURRENDER ITS RIGHT, AS SELLER, TO CANCEL SHIPMENTS AT ANY TIME UP TO ACTUAL DELIVERY. THIS IS STANDARD, UNIVERSAL USG PRACTICE, APPLICABLE TO ALL REPEAT ALL USG-PREPARED LOANS. MOREOVER, PENDING FY 76 SECURITY ASSISTANCE BILL WILL REQUIRE SUCH PROVISION AS MATTER OF US LAW. AS FAR

AS YARG, AS PURCHASER, IS CONCERNED, WE CANNOT UNDERSTAND WHY SAG WOULD WANT TO INSIST THAT YARG SHOULD NOT HAVE RIGHT TO CANCEL DELIVERIES, PROVIDED, OF COURSE, THAT YARG IN SUCH CASES WOULD PAY CANCELLATION COSTS. GENERAL USG POSITION IS THAT ANY ONE OF THREE PARTIES--US, AS SELLER; SAG, AS FINANCIER; AND YARG, AS PURCHASER--SHOULD HAVE RIGHT OF CANCELLATION, AND THAT WHICHEVER OF THREE PARTIES INITIATES CANCELLATION SHOULD PAY CANCELLATION COSTS.

C.) FOURTH POINT RAISES NO OBJECTIONS PER SE, PROVIDED WE ARE TOLD WHAT "PRIOR UNDERSTANDINGS" ARE BETWEEN SAG AND YARG, AND THAT UNDERSTANDINGS CONSISTENT WITH US LEGISLATIVE AND POLITICAL REQUIREMENTS. KISSINGER

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